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**FEB 05 1981**

Service Date:

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

In the Matter of the Application of )	UTILITY DIVISION
MONTANA-DAKOTA UTILITIES, )	
INC. for authority to implement )	
the gas cost tracking procedure )	DOCKET NO. 80.10.87
to establish increased rates for )	
gas service. )	ORDER NO. 4742

APPEARANCES

FOR THE APPLICANT:

Joseph R. Maichel, Attorney, Montana-Dakota Utilities Co., 400 North 4th Street, Bismark, North Dakota 58501

John Alke, Attorney, Hughes, Bennett, Kellner and Sullivan, P.O. Box 1166, Helena, Montana 59624

FOR THE PROTESTANTS:

John Allen, Attorney, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620

Jerome Anderson, Attorney, Pierce Packing Company, Lovell Clay Products Company, Midland Empire Packing Company, Midland Foods Distributing Company and Midland Foods, Inc., 404 North 31st Street, Billings, Montana 59101

C. W. Leaphart, Attorney, Great Western Sugar Company, 1 Last Chance Gulch, Helena, Montana 59601

FOR THE COMMISSION:

Robert F. W. Smith, Staff Attorney

BEFORE:

GORDON E. BOLLINGER, Chairman  
CLYDE JARVIS, Commissioner  
THOMAS J. SCHNEIDER, Commissioner

FINDINGS OF FACT

1. On November 7, 1980 Montana-Dakota Utilities Company (MDU) filed an Application to Implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheets 87-M and 88-M.

2. The procedure provides for the raising of rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Adjustment:

	<u>Residential and Commercial Customers</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	90.479¢ per Mcf	98.408¢ per Mcf
Unreflected Gas Cost Adjustment	<u>43.629¢ per Mcf</u>	<u>43.629¢ per Mcf</u>
Total	134.108¢ per Mcf	142.037¢ per Mcf

3. The total increase from current rates would be 133.724 cents for residential and commercial customers and 141.653 cents for industrial customers as the present unreflected gas cost adjustment of 0.384 cents per Mcf is replaced by the new unreflected gas cost adjustment of 43.629 cents.

4. The proposed increase would result in approximately \$5.4 million of additional annual revenues from the unreflected gas cost portion and \$11.4 million in additional annual revenues from the current gas cost portion for a total increase of \$16.8 million in annual revenue.

5. The matter was heard beginning at 10:00 a.m. on December 3, 1981, in Room 5000, Federal Building, U.S. Courthouse, 316 North 26th Street, Billings, Montana. No public witnesses presented testimony at the hearing; MDU witnesses standing cross-examination included Mr. C. Wayne Fox, Mr. David P. Price, Mr. John T. Kasper and Mr. Donald R. Ball.

Unreflected Gas Cost Adjustment

6. The Unreflected Gas Cost Adjustment is derived from the Unreflected Purchased Gas Cost Account as fully described in parts (1), (2), (4), and (5) in tariff schedule 88-M. This account reflects the difference in system average costs actually paid for gas and costs actually recovered under the most current Commission-authorized tariff schedules for an historic six-month time period. The balance in the UPGC Account is then amortized over expected sales for a future six-month time period.

7. The balance in this account at July, 1980 was \$5,437,322.61. This figure includes a January, 1980 balance of \$2,563,330.02. The January, 1980 balance was the subject of the Unreflected Gas Cost Adjustment in Docket No. 80.4.1 (MDU's last tracking case), but because no order was issued in that Docket prior to the present filing, the January, 1980 balance was also included in Docket No. 80.10.87.

8. Subsequent to the present filing, Order No. 4726 was issued stating that the January 21, 1980 balance of \$2,563,330.02 was to be amortized over expected sales volumes of 12,462,500 Mcf for the period December 1, 1980 to May 3, 1981, producing an unreflected gas cost adjustment of 20.568 cents per Mcf (Finding No. 7).

9. Finding No. 15 of that order found that "(t)he Commission recognizes that due to the unavoidable delay in this Docket, and the corresponding delay in implementing both the unreflected gas cost adjustment and the current gas cost adjustment set forth in tariff 88-M, that only a portion of the January 31, 1980, balance in the unreflected gas cost account will be amortized by the next adjustment period. A substantial balance will exist in

this account and will have to be amortized in the next adjustment period without regard to further increases in the cost of natural gas."

10. The appropriate amortization period for the purposes of this Order is February 1, 1981 to July 31, 1981. The expected sales over this period are 8,756,700 Mcf (See Exhibit E and MDU's late-filed exhibit). The amount of revenue to be amortized over this period is the July, 1980 balance less the amount collected in December, 1980 and January, 1981 as a result of Order No. 4726. This latter amount is \$1,052,958.19 computed as follows:

December, 1980 Estimated Sales:	2,337,600 X 20.568¢	= \$480,797.57
January, 1981 Estimated Sales:	2,781,800 X 20.568¢	= \$572,160.62
		<u>\$1,052,958.19</u>

The present Unreflected Gas Cost Adjustment becomes:

July, 1980 balance	\$5,437,322.61
- less Order No. 4726 collections	<u>1,052,958.19</u>
	\$4,384,374.42
-divided by Expected Sales	8,756,700 Mcf
Unreflected Gas Cost Adjustment	50.069¢

11. The Commission recognizes that this adjustment is based on estimated sales for December, 1980 and January, 1981 and that actual sales for these months will be reflected in future tracking filings with the appropriate corrections made to the Unreflected Gas Cost Account.

12. MDU is entitled to an Unreflected Gas Cost Adjustment in the amount of 50.069¢ per Mcf of gas for all its classes of customers in Montana.

#### Current Gas Cost Adjustment

13. The Current Gas Cost Adjustment, submitted and applied for in accordance with Sections (1), (2) and (3) of tariff schedule 88-M, attempts to compute the difference between current system average costs for gas and average system costs as last approved by the Commission.

14. As in the two preceding MDU tracking cases, the Commission finds the Current Gas Cost Adjustment unconvincing in that it relies heavily on the application of October, 1980 NGPA prices to volumes projected through year-ending January 31, 1981. (See Exhibits A, B, C and D in MDU's prefiled exhibits.) As noted in previous orders, the use of projected volumes "...provides the opportunity, whether intentional or unintentional, for overestimating gas costs." The potential for inaccurate measurements is once again evident in the present filing:

Q. Are those wells included in this case?

A. Yes, I believe, they are.

Q. And, they are not in line yet?

A. Some of those are certainly on, but probably some of the wells are not on line yet.

Q. Could you identify for us the ones that are on line?

A. Not specifically. As I said, these are contracts which are contracted by Kansas-Nebraska Natural Gas Company. We can get that information from them if you would like, or a breakdown as to what those statistics are, or volumes are. (Tr. pp. 17-18, direct testimony of D. Price.)

15. The Commission's opinion with respect to the use of projected volumes in a tracking procedure clearly were made known in Order Nos. 4588 and 4726 and need not be repeated here. Order No. 4726 specifically considered the problem of a lack of an appropriate methodology for calculating the Current Gas Cost Adjustment and requested the Company to present alternative methodologies when it files its Spring, 1981 deferred gas cost application. That request specifically mentions that the Company, in contemplating alternative methodologies, should consider a Current Gas Cost Adjustment based on 12 months of historical data for the years ended

January 31st and July 31st; and the use of known and measurable changes in adjusting the historical data. In his direct testimony, Mr. D. Ball acknowledges that the methodology used in the present filing does not comport with Commission direction:

Q. Does the current gas cost adjustment computation filed match what the Commission appears to desire in Order Number 4726?

A. No, it doesn't.

Q. What are the primary differences?

A. The primary differences in that case uses the annualized volumes of gas purchases where as from reading the Commission Order Number 4726 there appears to be a great deal of question about that annualized procedure. (Tr. p. 62)

16. For these reasons the Commission finds the Current Gas Cost Adjustment to be unacceptable. The approval of same as herein applied for is hereby denied.

#### Future Considerations

17. The Commission is extremely uncomfortable with the past and present performance of the gas cost tracking procedure in regards to its ability to provide an expeditious and reasonable flowing through of the costs associated with escalating NGPA prices. The intent of this procedure is to provide a streamlined mechanism by which systematically rising prices can be transmitted to consumers so that they may (1) be kept abreast of current market conditions and signals, allowing them to make rational economic decisions, and (2) be sheltered from having to endure a sudden, precipitous rise in price. Current methodology has not provided a means to either of these ends.

18. In order to expedite the tracking process the Commission, henceforth, will seek to limit the scope of such cases to issues directly related to the adjustment procedure. Although producer take or pay provisions and gas mix are recognized as having a significant impact on the tracking outcome, it is felt that these and other basic issues are most appropriately considered within the confines of a general rate case. Furthermore, pertaining to issues of this nature, it is the findings from the general rate case that will form the basis for consideration of gas cost adjustment issues in the tracking case. As the Commission stated in Order No. 4588, "(u)se of the mix approved in the last general rate case as a starting point allows the Commission to set rates which are responsive to a gas mix reviewed by all concerned parties and in light of other adjustments which consider the overall operating characteristics of the utility; rather than the narrowly defined arena afforded in a gas tracking case." Tracking cases submitted containing deviations from general rate case findings on basic issues will not be favorably considered by the Commission.

19. Montana-Dakota Utilities Co. should base their Spring, 1981 tracking case on the gas mix presented and approved by this Commission in Docket No. 6695 -- MDU's last general rate case. The volume of Company-produced gas in that case was approximately 5,150,000 Mcf.

20. As a final point, it has come to the Commission's attention that the procedure used by MDU <sup>n</sup><sub>is</sub> establishing proposed tariff sheets in tracking cases has not provided for maintenance of the 25 percent lifeline discount differential between Winter and Remainder of the Year rates. Future gas cost tracking filings should include the necessary adjustment to insure that the 25 percent differential is preserved.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and proceedings in this matter.
2. The rates and charges authorized herein are just, reasonable and not discriminatory.

ORDER

1. The Applicant shall file rate schedules for natural gas service reflecting for all customer classes an increase in rates of 50.069 cents per Mcf and a termination of the current unreflected gas cost adjustment of 20.568 cents per Mcf. The schedules filed shall be effective for service rendered on and after February <sup>9</sup>/<sub>6</sub>, 1981.
2. All motions and objections not ruled upon at the hearing are denied.

DONE AND DATED this \_\_\_\_ day of February, 1981, by a vote of - .



BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

\_\_\_\_\_  
GORDON E. BOLLINGER, Chairman

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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CLYDE JARVIS, Commissioner

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THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill  
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.